

# More promoters put faith in trusts to save taxes, plan succession

Open offer exemption a key factor in transfer of personal stakes to trusts

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**P**romoters of Indian companies are increasingly transferring their personal and family stakes to trusts, a move that has as much to do with succession planning as with avoiding estate tax, if it ever comes back, and fending off hostile takeovers.

The trend is helped along by the markets regulator, which has granted open offer exemptions to as many as 47 promoters, who have sought its permission since 2013. Of these, 31 exemptions were granted since the start of 2017, a period that has seen rising concerns over a possible return of estate duty, levied on the value of assets passed on to legal heirs.

With the exemption, promoters do not have to make an open offer to buy out shares from the public, a requirement that typically comes with ownership changes.

According to a *Mint* analysis of data available with the Securities and Exchange Board of India (Sebi) and BSE, Anand Mahindra of Mahindra and Mahindra Ltd (M&M); Aniljit Singh of Max Group; Anil Rai Gupta of Havells India Ltd; G. Mallikarjuna Rao of GMR Infrastructure Ltd; Vinod and

## MINT GRAPHITI

### A MATTER OF TRUST

At least 47 promoters have set up trusts since 2013. This includes the who's who of India Inc.

■ Trust ● Promoters' net worth (in ₹ cr)



**HAVELLS INDIA**  
Anil Rai Gupta

- ARG Family Trust
- SRG Family Trust

26,347



**MAHINDRA & MAHINDRA**  
Anand Mahindra & others

- Anand Mahindra Family Trust
- Mahindra Family Trust-I

16,509



**ALEMBIC PHARMACEUTICALS**  
Chirayu Amin & family

- Laksh Trust

7,652



**GMR INFRASTRUCTURE**  
G. Mallikarjuna Rao & family

- Grandhi Varalakshmi Mallikarjuna Rao Trust
- Srinivas Bommidala and Ramadevi Trust
- Grandhi Buchi Sanyasi Raju and Satyavathi Smitha Trust
- Grandhi Kiran Kumar and Ragini Trust
- GMR Family Fund Trust

6,342



**VINATI ORGANICS**  
Vinod Saraf, Kavita Saraf

- Vinod Saraf Family Trust
- Kavita Vinod Saraf Family Trust

5,607

Source: Capitaline, BSE, Sebi

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Kavita Saraf of Vinati Organics Ltd; Anil Mittal, Arun Kumar Gupta and Anoop Kumar Gupta of KRBL Ltd; the Amin family of Alembic Pharmaceuticals Ltd; Irfan Razack, Rezwan Razack and Noaman Razack of Prestige Estates Projects Ltd are some of the promoters who have moved their shareholding to family trusts.

"The transfer of my direct and indirect holdings of Mahindra shares were done to the trusts for meeting the

estate planning needs of my family. We had sought and obtained the necessary regulatory permissions in this regard," Anand Mahindra,

chairman of M&M, said in a reply to a query.

For Adi Godrej, chairman of Godrej Group, it was all about safety and precaution.

"(This is being done) because of taxation benefits.

Suppose, if an estate duty comes, the trust doesn't have to pay. Many countries have it. A lot of people are talking

about inequality of wealth, etc. In the US, they still have an estate duty. If the government wants to do it, they are in majority, they will do it. There is so much talk about it all over," said Godrej.

Till the 1980s, India levied a 90% marginal income tax and an 8% wealth tax on the income of promoters, Godrej said.

In an emailed statement, Havells India said the promoter families had created a trust to simplify their direct and indirect shareholdings in Havells following a private

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**With the Sebi exemption, promoters do not have to make an open offer to buy out shares from the public**

# More promoters putting their faith in trusts

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family arrangement.

One of the key drivers of the new trend is asset protection. Families are increasingly aware of the risks posed by the new insolvency law and their exposure via personal guarantees for the company's debt.

"Hence, to protect against this, settlement into trusts is advisable, but the timing needs to be carefully seen to avoid doing so on the eve of potential creditor claims coming," said Rishabh Shroff, a partner at law firm Cyril Amarchand Mangaldas who also jointly heads the firm's family business and estate planning team.

Another reason is to protect against the possibility of an estate duty. At present, no such tax exists, and it seems unlikely for the foreseeable future, but promoters are leaving nothing to chance.

"The hope here is that such trusts will fall outside the scope of such tax, as no inheritance or transmission takes place under a trust, but as the contours of such law are completely unknown, no one really knows for sure, but one can still prepare," Shroff added.

Families form trusts also to separate ownership from management. A family can consolidate ownership into one strong central block under a

trust and senior members can become trustees with planned succession. This helps avoid fragmentation of estates over generations.

A person close to the Analjit Singh family said a trust structure was first considered in 2010 to initiate a more structured way of succession planning. The Max Group had sought

exemptions for three of its firms, but the request was rejected as the group went through a demerger and Sebi does not allow exemption of all

companies within the first year of demerger.

The Singh family's approach to a trust structure was driven more by a need for succession

planning, the person said, asking not to be named.

"When you write a will, any of the successors can challenge it after your demise. In a trust structure, there are trustees. They are

supposed to see the execution of trust," the person said.

"A will can be contested, but in a trust it doesn't happen that easy," the person added.

**Promoter families are aware of risks posed by IBC and their exposure via personal guarantees for the firm's debt**